



SACHI A. HAMAI  
Chief Executive Officer

## County of Los Angeles CHIEF EXECUTIVE OFFICE

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*"To Enrich Lives Through Effective And Caring Service"*

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Fifth District

December 08, 2015

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, California 90012

Dear Supervisors:

### **MEDICARE PART B PREMIUM REIMBURSEMENT PROGRAM FOR 2016 ALL DISTRICTS (3 VOTES)**

#### **SUBJECT**

Recommendation to approve renewal of the Medicare Part B Reimbursement Program which provides for reimbursement of Medicare Part B premium costs up to the standard rate for retirees enrolled in a Los Angeles County Employees Retirement Association (LACERA)-administered Medicare Plan in 2016.

#### **IT IS RECOMMENDED THAT THE BOARD:**

- 1) Renew the Medicare Part B Premium Reimbursement Program for the 2016 calendar year for retirees enrolled in a LACERA-Administered Medicare Risk HMO or Medicare Supplement Plan;
- 2) Instruct the Chief Executive Officer to report back to the Board prior to January 1, 2017, with recommendations regarding the Medicare Part B reimbursement policy for the 2017 calendar year; and
- 3) Reaffirm the Board's right to change or terminate the Medicare Part B Premium Reimbursement Program at any time if it ceases to be cost effective.

## **PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION**

Since 1992, the County has sponsored retiree health insurance plans designed to encourage retirees to fully participate in the federal Medicare program. As part of this effort, the County established the Medicare Part B Premium Reimbursement Program to reimburse qualified retirees for the cost of their Medicare Part B premiums. This reimbursement amount is limited to the standard premium rate which is subject to annual adjustment.

Medicare Part B covers certain doctors' services, outpatient care, medical supplies, and preventive services for retirees who are at least 65 years old. To receive the Medicare Part B reimbursement, retirees must meet all the following eligibility criteria: 1) Current enrollment in both Medicare Parts A and B; 2) Current enrollment in one of the LACERA-administered Risk HMOs (Kaiser Senior Advantage, Senior Care Action Network (SCAN), or UnitedHealthcare), or a Medicare Supplement Plan (Anthem Blue Cross Plan III); 3) Currently paying for Medicare Part B premium themselves; and 4) Not being reimbursed for the Medicare Part B premium by another agency.

By prior Board direction, reimbursing retirees for the cost of Medicare Part B requires an annual determination that the program remains cost effective. In other words, the savings that result from the reduction in Medicare Part B premiums must be greater than the cost of reimbursing those who participate in the Medicare Part B Premium Reimbursement Program ("Reimbursement Program"). The purpose of the recommended action is to affirm that such determination has been made, and to obtain the Board's authorization to continue the program through the 2016 calendar year.

### **Retiree Healthcare Subsidy Overview**

The County pays a subsidy toward the cost of retiree health and dental insurance only if the retiree has at least 10 years of service. The amount of the subsidy for eligible retirees is based upon the retiree's length of active County service. A retiree with 10 years of service receives a subsidy equal to 40 percent of premium cost of the selected insurance plan or 40 percent of the benchmark plan rate, whichever is less. Beyond the 10 years, the subsidy increases four percent for each additional year of service. Therefore, a retiree with 25 years of active County service receives a subsidy equal to 100 percent of the benchmark premium cost, or the selected insurance plan premium cost, whichever is less.

Currently, the benchmark rate is equal to the rates negotiated for the Anthem Blue Cross I and Blue Cross II plans (rates for these plans are the same). Under no circumstances may the subsidy exceed these benchmark premium rates. Within these limitations, the subsidy is applied toward the cost of coverage for the retiree and any eligible dependents for Tier 1 participants (those hired prior to July 1, 2014). For Tier 2 participants (those hired on or after July 1, 2014), the subsidy is applied toward the cost of coverage for the retiree only. The Tier 2 retiree is responsible for paying the full cost of the insurance premium for any eligible dependents they elect to enroll in a LACERA medical and/or dental insurance plan. If the premium of the health care plan selected by the retiree exceeds the benchmark rate, the retiree must pay the difference (for himself and enrolled dependents under Tier 1, and for himself under Tier 2, respectively), even if he has 25 years of service credit.

## Medicare Risk HMO and Medicare Supplement Plan Overview

Since the inception of the Reimbursement Program in 1992, the County has reimbursed the full cost of the standard Medicare Part B premium for any retiree enrolled in a Medicare Risk HMO and the Medicare Supplement Plan. LACERA currently administers three Medicare Risk HMOs and one Medicare Supplement Plan. There are an estimated 30,200 retirees and their dependents enrolled in these plans.

The Medicare Risk HMOs and the Medicare Supplement Plan require the eligible retirees to be enrolled in Medicare Parts A and B. Part A covers hospitalization costs and Part B covers physician services and other ancillary items such as laboratory testing and durable medical equipment. Part A coverage is earned by working the required Social Security quarters and Part B must be purchased by eligible participants.

Under a Medicare Risk HMO, participants assign over all rights to Medicare Parts A and B to the HMO and agree to receive all medical care from the HMO. Furthermore, participants agree to waive any right to use Medicare benefits outside the HMO. In exchange, Medicare agrees to pay the HMO a monthly “capitation” fee on behalf of the participant, which defrays much of the cost of the HMO coverage. The reduction in cost is passed on to the retirees and to the County in the form of lower premiums and lower County subsidies.

A Medicare Supplement Plan is an indemnity plan that complements Medicare benefits. Medicare becomes the primary payer and pays first on each claim. A Medicare Supplement Plan picks up where Medicare leaves off within the limitations set forth by Medicare.

## 2016 Premium Rates for Medicare Part B

As part of the Medicare Modernization Act effective January, 2007, Medicare Part B premiums are income or means tested. Means testing imposes higher Part B premiums on a graduated basis beginning with retirement incomes over \$85,000 per annum. Therefore, these individuals must pay the higher Part B standard premium rate plus the means tested amount taking effect on January 1, 2016.

Since the 1992 Reimbursement Program inception, the Centers for Medicare and Medicaid Services (CMS) has annually issued only a single standard Medicare premium rate (i.e., the minimum that all participants pay), along with associated means tested rates. For 2013, 2014, and 2015, the standard premium rate was \$104.90 per month. However, on November 10, 2015, CMS announced an unprecedented two-tier Medicare Part B premium rate structure for 2016 – one for those retirees protected under the Social Security “hold harmless” provision (“hold harmless” rate), and a new standard rate for all other retirees not protected under the “hold harmless” provision. These rates were issued in response to the lack of a Social Security Cost of Living Adjustment (COLA) for 2016 (Social Security regulations prohibit an increase in Medicare Part B premiums that would reduce an individual’s monthly Social Security Benefits), and the implementation of the 2015 Bipartisan Budget Act (modifies the calculation methodology for Medicare Part B premiums and deductibles).

For 2016, the premium rates for each income bracket will remain the same, only for those participants who are “held harmless” from premium rate increases. Pursuant to the provisions of the Bipartisan Budget Act of 2015, retirees not subject to the hold harmless provision will pay a slightly

higher standard rate (\$121.80 per month) effective January 1, 2016. Retirees who must pay the higher plan premium include those not collecting Social Security benefits, first time Part B enrollees in 2016, Medicare beneficiaries who are dually eligible for Medicare and Medicaid, and higher-income Medicare beneficiaries who are required to pay an income-related surcharge in addition to the standard monthly Part B premium amount (Modified Adjusted Gross Income greater than \$85,000 for individuals, and greater than \$170,000 for couples) (Attachment A).

Under the Reimbursement Program, only the standard Medicare Part B premiums and Medicare late enrollment penalties are reimbursed (Note: Penalty is paid only for those who enrolled into one of the LACERA-administered Medicare Advantage/Medicare Supplement plans prior to May 1, 1993). There is no existing policy provision or system to address or accommodate a multiple tier premium rate reimbursement structure since, as stated earlier, CMS has issued only single tier rates. Also, there is no existing mechanism to determine which LACERA members would qualify to pay the "hold harmless" rate, and which members would be subject to the standard rate. Therefore, we are recommending a minor change in the administration of the Reimbursement Program rather than a policy change. This is in recognition not only of the late rate change notice by CMS, but also of the change in rate structure (two-tier versus one) and the County's obligation to reimburse at the standard rate (the higher of the two rates).

For the 2016 plan year, we recommend that the County's monthly reimbursement continue at the level of the "hold Harmless" standard Medicare Part B premium rate (\$104.90 for individuals and \$209.80 for couples filing jointly) for all those plan participants who qualify under the "hold harmless" provision. However, given the late notification of the rate structure change, we recommend that the monthly reimbursement to all other LACERA members who qualify for participation in the Medicare Part B Reimbursement Program, but who are not protected under the Social Security "hold harmless" provision, be at least \$104.90 (hold harmless individual rate) up to a maximum of \$121.80 (2016 standard rate for those not protected under the hold harmless provision). It should be noted that such reimbursement beyond the hold harmless rate is contingent upon LACERA's ability to administer a two-tier rate reimbursement structure.

### **Implementation of Strategic Plan Goals**

The recommended action supports the Countywide Strategic Plan Goal of Operational Effectiveness/Fiscal Sustainability. The County's program to subsidize the standard Medicare Part B premium provides an incentive for retirees to participate in less costly LACERA-administered Medicare plans. As such, it reduces the overall retiree health care plan costs for the County.

### **FISCAL IMPACT/FINANCING**

The recommended action would lower Medicare Part B reimbursement costs by approximately \$1.2 million per year compared to the 2015 program year (\$46.2 million total cost per annum all funds). However, the potential cost of not approving the recommendation could be far greater.

Without the program, a majority of the current program participants would likely transfer into the more expensive LACERA plans. Of the estimated 30,200 eligible participants currently in the program, approximately 13,400 retirees (19,400 total eligible participants) are receiving a 100 percent County retiree healthcare subsidy because they have 25 or more years of County service. These individuals can enroll in any LACERA health plan and have the full premium paid by the County up to the current benchmark plan limits (Anthem Blue Cross I and II rates). As such, there would be no obligation for these persons to purchase Part B coverage.

The County and LACERA independently contracted with the actuarial consulting firms of Cheiron and Aon Hewitt, respectively, to review this program, including the potential impact of discontinuing the program (Attachments B and C). Cheiron concluded that without the program, the increase in retiree healthcare costs to the County would be approximately \$51 million per annum. Likewise, Aon Hewitt concurred that the overall County cost for retiree healthcare would be dramatically higher in the absence of the Part B reimbursement program. For these reasons, we recommend renewal of the program to better ensure that the cost savings can be realized.

#### **FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

The recommended continuance of the Medicare Part B reimbursement would take effect on January 1, 2016, and will be initially reflected in LACERA retiree warrants issued December 31, 2015. The amount reimbursed will include any late enrollment penalties paid by retirees who enrolled during the special open enrollment period prior to May 1993.

The Chief Executive Officer will report back prior to January 1, 2017, with additional recommendations relating to Part B reimbursement policy for the 2017 calendar year.

#### **IMPACT ON CURRENT SERVICES (OR PROJECTS)**

No impact on current services.

Respectfully submitted,



SACHI A. HAMAI

Chief Executive Officer

SAH:JJ:MTK

SM:VMH:rld

Enclosures

c: Executive Office, Board of Supervisors  
County Counsel  
Auditor-Controller  
Los Angeles County Employees Retirement  
Association

# ATTACHMENT A

## MEDICARE PART B PREMIUM COSTS FOR 2016

Yearly Modified Adjusted Gross Income for 2014 <sup>1</sup>		2016 “Hold Harmless” Individual Rates	2016 Rates for Individuals not Subject to “Hold Harmless” Provisions
Filing Individually	Filing Jointly		
\$85,000 or less	\$170,000 or less	\$104.90 <sup>2</sup>	\$121.80 <sup>3</sup> (standard rate)
Above \$85,000 up to \$107,000	Above \$170,000 to \$214,000	\$146.90	\$170.50
Above \$107,000 up to \$160,000	Above \$214,000 to \$320,000	\$209.80	\$243.60
Above \$160,000 up to \$214,000	Above \$320,000 to \$428,000	\$272.70	\$316.70
Above \$214,000	Above \$428,000	\$335.70	\$389.80

<sup>1</sup>Premium rates are based upon annual income from the two years prior to the plan year.

<sup>2</sup>2016 “Hold Harmless” rates are unchanged from the 2015 standard rates.

<sup>3</sup>Reimbursement of the 2016 standard rate is pending a system modification by LACERA to accommodate the administration of a two-tier reimbursement structure.

*Via Electronic Mail*

ATTACHMENT B

November 19, 2015

Ms. Valerie Hara  
County of Los Angeles  
Chief Administrative Office  
784 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

**Re: *Projected Impact of Suspending the 2016 Part B Reimbursement for Retirees***

Dear Val:

We have completed our analysis of the projected impact to the County of Los Angeles (the County) if it elected to suspend the current practice of reimbursing the retiree and any covered dependents for the Medicare Part B premium as of January 1, 2016. The current practice is intended to encourage retirees to participate in either the Anthem Blue Cross III Medicare Supplement plan, or in one of the Medicare Advantage HMO plans offered to the current retirees. The intent of this analysis is to determine whether it is in the County's financial interest to continue the current practice.

Under the current practice, the County reimburses the basic Part B premium rate. For 2016, the standard Part B premium is increasing to \$121.80. However, members who are receiving Social Security benefits will see their premium remain unchanged from the 2015 premium of \$104.90. Other County members will pay the higher amount, including those who first become eligible in 2016, those who do not receive Social Security benefits, dual eligibles who have their premium paid by Medicaid, and those who pay the additional means tested premium rates. Because LACERA does not have the ability to determine which members fall into the "hold harmless" category and will not see an increase, we have assumed that 70% of the current members fall into this category. Finally, the County does not reimburse the retirees for any additional means tested premiums for high-income participants that became effective in 2007.

Under the current retiree medical program, a retiree must have retired with at least 10 years of service. Those with less than 10 years of service receive no County contribution towards retiree medical coverage but are eligible for the Part B reimbursement. For those with 10 or more years of service, the County contributes 4% per year of service up to a maximum of 100% for a member with 25 years or more of service for the lesser of the cost of the plan the retiree elects, or the cost of the Anthem Blue Cross Plans I and II. This percentage applies to both the member premium and any dependent premium for those hired on or before June 30, 2014. Members hired on or after July 1, 2014 will only have the retiree only premium paid; the retiree is responsible for the cost of any covered dependents.

Our analysis focuses on just those retirees who currently are eligible for Medicare, are currently receiving a reimbursement for their Medicare Part B premiums, and are enrolled in a Medicare Advantage HMO or the Anthem Blue Cross III plan. Based on the data provided by the County and LACERA, there were 30,061 retirees in this category as of October 31, 2015. Of these, 10,783 had less than 25 years of service and were making some level of contribution towards their retiree coverage.

The current Medicare plans have much lower premiums than the Anthem Blue Cross I and II plans; for a number of the 10,783 retirees with less than 25 years of service, the total cost of the current premium for the Medicare plan they have chosen plus the Medicare Part B premium cost is less than what they would have to pay if they elected the Anthem Blue Cross I or II plan.

As an example, a retiree with 15 years of service and currently participating in the Anthem Blue Cross Plan III is paying \$171.48 per month for coverage. If that individual was participating in the Anthem Blue Cross Plan I or II, the retiree would be paying \$425.12 per month for coverage. If the County stopped reimbursing the Medicare Part B premium (which would be either \$104.90 or \$121.80), the total cost of the Part B premium and the Anthem Blue Cross Plan III premium would be either \$276.38 or \$293.28 which is between \$148.74 and \$131.84 less per month than the cost under Anthem Blue Cross I or II. The retiree would save between \$1,600 and \$1,800 per year by paying the Part B premium and remaining in his current plan.

Using this logic, we developed three different Alternatives that show the range of possible outcomes if the County elected to suspend the current policy:

- Alternative 1 – If the total cost to the retiree of the current Medicare plan plus the cost of the Part B premium is less than the cost of the applicable non-Medicare plan, the retiree remains in his current Medicare plan. If the cost is greater than the applicable non-Medicare plan then the retiree elects the applicable non-Medicare plan.
- Alternative 2 – All retirees remain in their current plan and elect to pay the additional Part B premium.
- Alternative 3 – If the total cost to the retiree of the current Medicare plan plus the cost of the Part B premium is less than the cost of the applicable non-Medicare plan, the retiree remains in his current Medicare plan. If the cost is greater than the applicable non-Medicare plan then 50% of the retirees elect the applicable non-Medicare plan and 50% remain in their current plans.

For purposes of this analysis, the applicable non-Medicare plans are:

- For Anthem Blue Cross III and SCAN plans, it is the Anthem Blue Cross II plan
- For the Kaiser plan, it is the Kaiser Excess I plan
- For the United Healthcare plan, it is the non-Medicare United Healthcare HMO plan
- For the CIGNA plan, it is the non-Medicare CIGNA HMO plan



Ms. Valerie Hara  
November 19, 2015  
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Based on these assumptions, Exhibit I shows that the cost impact to the County ranges from a cost savings of \$51 million under Alternative 2 to an increased cost of \$152 million under Alternative 1 for 2016. Alternative 3 produces an additional cost to the County of \$51 million. We believe that Alternative 3 is the likely outcome if the County elected to suspend the policy of reimbursing the Part B premiums so it is in the interest of the County to continue the current policy as it is saving the County in excess of \$51 million.

This analysis was prepared for the sole purpose of reviewing the cost impact of the County ceasing its reimbursement of the Medicare Part B premium for retirees and is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

In preparing this letter, we relied, on information (some oral and some written) supplied by the County of Los Angeles. This information includes, but is not limited to, the plan provisions, retiree data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

To the best of my knowledge, this letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct, and applicable Actuarial Standards of Practice (ASOP) set out by the Actuarial Standards Board. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. I am not an attorney and our firm does not provide any legal services or advice.

Please let us know if you have any questions or would like to discuss this further. You can reach me at (703) 893-1456, extension 1135 or at [mschionning@cheiron.us](mailto:mschionning@cheiron.us).

Sincerely,  
Cheiron



Michael Schionning, FSA, MAAA  
Principal Consulting Actuary

cc: Graham Schmidt, Cheiron

Exhibit I  
County of Los Angeles  
Projected Cost Impact of Suspending the Part B Reimbursements  
County Costs Only - Excludes Retiree Contributions  
Medicare Eligible Participants Only  
Calendar Year 2016

	<u>Current</u>	<u>Alternative 1</u>	<u>Alternative 2</u>	<u>Alternative 3</u>
Anthem Blue Cross	\$61,262,000	\$118,339,000	\$43,154,000	\$80,747,000
CIGNA	\$277,000	\$575,000	\$194,000	\$384,000
Kaiser	\$99,440,000	\$180,117,000	\$71,481,000	\$125,799,000
SCAN	\$1,927,000	\$3,246,000	\$1,326,000	\$2,286,000
United Healthcare	\$15,244,000	\$28,184,000	\$10,879,000	\$19,532,000
Total	\$178,150,000	\$330,461,000	\$127,034,000	\$228,748,000
Cost/(Savings)		\$152,311,000	(\$51,116,000)	\$50,598,000

Notes:

- 1) Current premium costs include the Medicare Part B premium reimbursement.
- 2) Alternative 1 is based on the assumption that all current retirees elect a non-Medicare plan.
- 3) Alternative 2 is based on the assumption that all current retirees stay in the Medicare plan.
- 4) Alternative 3 is based on the assumption that current retirees for whom the retiree cost for the current Medicare Plan is less than the cost of the non-Medicare plan remain in their current Medicare plan and for all other retirees 50% elect to remain in the Medicare plan and 50% move to the non-Medicare plan.

November 18, 2015

Cassandra Smith  
Director Health Care Benefits Program  
LACERA  
300 N. Lake Avenue, Suite 300  
Pasadena, CA 91101

**Subject: Medicare Part B Premium Reimbursement Analysis**

Dear Cassandra:

This letter confirms the financial advantage to the County of Los Angeles to continue its practice of reimbursing Medicare Part B premiums for retirees and dependents enrolled in Medicare Advantage Prescription Drug Plans (MAPD) and the Medicare Supplement Plan (Anthem Plan III). This analysis is for the plan year commencing July 1, 2015.

As in the past, because LACERA has a number of health plan options, we have included four “migration scenarios.” Each scenario is based upon a different set of migration assumptions of where the retirees might enroll if the County ceased to offer MAPD plans and ceased to subsidize Medicare Part B premiums for enrollees who participate in those plans. In all scenarios, we assumed no differences in utilization. Of course, LACERA could continue to offer MAPD plans without the Part B premium subsidy, but our expectation would be that enrollment declines in those plans due to elimination of the Part B reimbursement incentive would at some point offset any savings the County might expect from eliminating the subsidy.

Under all analyses and scenarios and based upon the underlying assumptions, Aon Hewitt’s analysis indicates it is in the County’s financial best interest to continue offering Medicare Advantage Prescription Drug Plans and subsidizing Part B premiums for enrollees in those plans.

**Background of the Medicare Part B Premium**

Current retirees who enrolled in Part B are paying Social Security Administration (SSA) Medicare Part B premium of \$104.90 per month in 2015. The Medicare Part B premium beginning on January 1, 2016 remains at the 2015 rate of \$104.90 for those participants who are “held harmless” from any increase in premiums in 2016. For retirees not subject to the hold-harmless provision, this rate will increase to



\$121.80. (Retirees not subject to this provision include those not collecting Social Security benefits, first time Part B enrollees in 2016, dual eligible beneficiaries who have premiums paid by Medicaid, and retirees who pay an additional income-related premium)

Currently, the County covers Part B premiums (and Medicare late enrollment penalties <sup>1</sup>) for retiree and dependent participants in the Medicare Advantage Prescription Drug plan and Medicare Supplement plan to encourage enrollment in these more cost-effective plans. There are approximately 31,408 retirees in such plans. According to LACERA's Medicare Part B Reimbursement and Penalty Report provided to Aon Hewitt for the pay period 10/31/2015, the average amount paid for retirees and dependents, including penalties, is \$127.58 per retiree per month.

## **Income-Related Medicare Part B Premium**

As part of the Medicare Modernization Act, effective January 2007, Medicare Part B premiums are income tested. Currently, the Medicare Part B premium is set at 50% of the monthly actuarial rate (MAR). The MAR represents 50% of the cost for Part B expenditures. Effective January 2007, individuals over a certain income level are paying a minimum of twice the targeted premium. Our model assumes that the County will not reimburse the means-tested amounts of the Part B premiums. In other words, it assumes that the County will pay only for the standard Medicare Part B premium amount and the late penalties for those who enrolled when the reimbursement plan was first introduced.

## **Projection Methodology**

In this projection, the savings are determined by comparing LACERA's current total plan cost (medical, dental/vision and Part B premium/penalties) with the projected total cost assuming there were no Medicare Advantage Plan offerings. The projected costs are based on the migration of MAPD participants into non-MAPD plans and the discontinuance of Plan B reimbursement by the County in some scenarios. The County's contributions are based upon years of service. For 2015 plan year, Aon Hewitt estimates that the County is contributing 92.5% of the total plan costs. This represents the County's share of the total premium and Medicare Part B Reimbursement plus penalties. This methodology is consistent with the projections prepared last year by Aon Hewitt. This projection assumes that 70% of current Part B participants are "held harmless" from any increase in premiums in 2016. Due to the mix of Medicare-eligible and ineligible membership in the non-Medicare Advantage plans, the savings may be an overstatement. Following is a description of each scenario along with the financial results.

<sup>1</sup> The late enrollment penalty amount is paid only to those who enrolled into one of the LACERA-administered Medicare Advantage/Medicare Supplement plans prior to May 1, 1993 when the reimbursement plan was first introduced.



## Projection A - Migration Assumptions

This projection assumes the following:

- All Medicare Advantage Prescription Drug Plan participants move from their current MAPD plan into the following corresponding non- MAPD plans:
  - Kaiser Senior Advantage participants migrate to the Kaiser Excess plan
  - SCAN, Anthem Blue Cross Plan III (Medicare Supplement), and United HealthCare participants migrate to Anthem Plan II.
  - CIGNA plan participants migrate into the non-Medicare CIGNA HMO plan
  - County will stop paying the Part B premium for all members.

Under this scenario LACERA's premium would increase approximately by **\$252.0 M from current plan costs.**

## Projection B - Migration Assumptions

Migration B scenario assumes:

- All Medicare Advantage Prescription Drug Plan participants migrate from their current MAPD plans to Anthem Plan II
- Current Anthem Plan III enrollment remains in Anthem Plan III
- County will stop paying the Part B premium for all members.

Under this scenario, LACERA's premium would increase by approximately **\$204.6 M** from the current plan costs.

## Projection C - Migration Assumptions

This projection assumes:

- Medicare Advantage Prescription Drug Plan participant migration is split 50/50 between non-Medicare corresponding HMO plans and Anthem Plan II
- Current Anthem Plan III enrollment remains in Anthem Plan III
- County will stop paying the Part B premium for all members.

Under this scenario, LACERA's premium would increase by approximately **\$169.8 M from current plan costs.**



## Projection D - Migration Assumptions

This scenario assumes:

- All Medicare Advantage Prescription Drug Plan and Anthem Plan III (Medicare Supplement) participants migrate to Anthem Plan II
- County will stop paying Part B premium for all members.

Under this scenario, LACERA's premium would increase by approximately **\$318.8 M from current plan costs.**

## Summary of Findings

Based upon our analysis described above and its underlying assumptions, we conclude the current program, where the County is subsidizing Medicare Part B premiums for retirees and dependents enrolled in the Medicare Advantage Prescription Drug plans and Medicare Supplement Plan (Anthem Blue Cross Plan III) is financially beneficial to the County, and represents significant savings compared with the four scenarios in this analysis.

Please refer to the attachment for back-up calculations and documentation.

Sincerely,

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Brian McGuire  
Aon H&B Vice President

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Helen Batsalkin  
AVP Consulting

cc: Kirby Bosley, Southern California H&B Practice Leader  
Laura Peck, Aon H&B Vice President, FSA, MAAA  
Jim Park, Aon H&B Consultant, ASA, MAAA

**LACERA**  
**Medicare Advantage Savings Projections**  
**Exhibit A**

July 1, 2015 through June 30, 2016

<b>Current Plan Cost (w/Part B Subsidy)</b>								
County Share	\$ 481,691,731	92.5%	\$ 481,691,731	92.5%	\$ 481,691,731	92.5%	\$ 481,691,731	92.5%
Member Share	\$ 38,791,887	7.5%	\$ 38,791,887	7.5%	\$ 38,791,887	7.5%	\$ 38,791,887	7.5%
Total	\$ 520,483,618	100%	\$ 520,483,618	100%	\$ 520,483,618	100%	\$ 520,483,618	100%
<b>Assumed Plan Cost (w/Migration and Benefit Options)</b>								
	<b>Migration A</b>	<b>Percent</b>	<b>Migration B</b>	<b>Percent</b>	<b>Migration C</b>	<b>Percent</b>	<b>Migration D</b>	<b>Percent</b>
*County Share	\$ 708,435,891	91.7%	\$ 665,033,671	91.7%	\$ 633,106,565	91.7%	\$ 769,681,581	91.7%
Member Share	\$ 64,018,205	8.3%	\$ 60,096,139	8.3%	\$ 57,211,029	8.3%	\$ 69,552,706	8.3%
Total	\$ 772,454,096	100%	\$ 725,129,810	100%	\$ 690,317,593	100%	\$ 839,234,287	100%
<b>Annual Cost Differential</b>								
County Share	\$ 226,744,160		\$ 183,341,940		\$ 151,414,834		\$ 287,989,850	
Member Share	\$ 25,226,318		\$ 21,304,252		\$ 18,419,141		\$ 30,760,819	
Total	\$ 251,970,478		\$ 204,646,192		\$ 169,833,975		\$ 318,750,669	
<b>Percentage Difference</b>								
County Share	47.07%		38.06%		31.43%		59.79%	
Member Share	65.03%		54.92%		47.48%		79.30%	
Total	48.41%		39.32%		32.63%		61.24%	

\*County Share in this calculation does not include Medicare Part B Subsidy

**Notes:**

**Medicare Part B Premiums:**

Assumes all current members Part B reimbursement is 104.90 for 2016

**Medicare Eligibility**

Due to the mix of medicare-eligible and ineligible membership in the non-Medicare Advantage plans, the savings may be an overstatement

**Migration A:**

Cigna Medicare Advantage members move to Cigna non-Medicare Advantage Plan

Kaiser Senior Advantage members move to the Kaiser Excess Plan

Anthem Plan III, SCAN and UHC members move to Anthem Plan II

County will stop paying Medicare Part B premium for all members

**Migration B:**

UHC, Cigna, Kaiser and SCAN Medicare Advantage members move to Anthem Plan II

Anthem Plan III members stay in Anthem Plan III

County will stop paying Medicare Part B premium for all members

**Migration C:**

UHC, Cigna, Kaiser and SCAN members move to non-MA corresponding HMO plan and Anthem Plan II (50%50%)

Anthem Plan III members stay in Anthem Plan III

County will stop paying Medicare Part B premium for all members

**Migration D:**

UHC, Cigna, Kaiser, SCAN, and Anthem Plan III members move to Anthem Plan II

County will stop paying Medicare Part B premium for all members

**LACERA**  
**Medicare Part B Subsidy Projections 2015/2016**  
**Exhibit B**

Carriers	MA Lives	MA Premium	Per Retiree	Non MA Lives	Non MA Prem	Per Retiree		Combined Lives	Combined Premium
United HealthCare	2,550	\$1,396,577.38	\$ 547.68	956	\$1,387,178.50	\$ 1,451.02		3,506	\$ 2,783,756
								-	
Cigna	49	\$32,961.52	\$ 672.68	633	\$1,044,270.78	\$ 1,649.72		682	\$ 1,077,232
								-	\$ -
Kaiser (Excess shown in Non MA column)	16,469	\$ 7,256,400.27	\$ 440.61	2183	\$ 2,632,151.12	\$ 1,205.75		18,652	\$ 9,888,551
Other Kaiser (basic & supplement)				3640	\$ 4,790,599.06	\$ 1,316.10		3,640	\$ 4,790,599
								-	\$ -
SCAN	356	\$146,453.00	\$ 411.38	0	0	0		356	\$ 146,453
								-	\$ -
Anthem Plan III	0		0	10,885	\$7,297,435.92	\$ 670.41		10,885	\$ 7,297,436
								-	\$ -
Anthem Plan II	0	0	0	4,680	\$7,225,792.02	\$ 1,543.97		4,680	\$ 7,225,792
								-	\$ -
Anthem Plan I	0	0	0	1,435	\$1,893,691.86	\$ 1,319.65		1,435	\$ 1,893,692
								-	\$ -
Anthem Prudent Buyer	0	0	0	1,395	\$1,644,613.18	\$ 1,178.93		1,395	\$ 1,644,613
Local 1014 Firefighters	0	0		1,667	\$ 2,521,626.94	\$ 1,512.67		1,667	\$ 2,521,627
								46,898	\$ 39,269,752
<b>Totals</b>	<b>19,424</b>	<b>\$ 8,832,392.17</b>		<b>27,474</b>	<b>\$ 30,437,359.38</b>			<b>46,898</b>	<b>\$ 39,269,752</b>
Annual Premium									\$ 471,237,018.60
Medicare Part B Reimbursement + Penalties for 2015/16									\$ 49,246,600
<b>Total Annual Premium</b>								<b>Current Scenario</b>	<b>\$ 520,483,618.50</b>

<u>Migration A</u>	<u>Monthly</u>	Annual Premium	Contributions
Cigna MA memb move to Cigna non MA	\$ 80,836.13		
Kaiser MA memb move to Kaiser Excess Plan	\$ 19,857,488.23	\$ 708,435,891	County 91.71%
Anthem Plan III, SCAN, and UHC move to plan II	\$ 21,292,926.87	\$ 64,018,205	Members 8.29%
County stops paying part B premium for all members		\$ 772,454,096	
Remaining Premium for the rest of population	\$ 23,139,923.46		
<b>Outcome</b>	<b>\$ 64,371,174.68</b>	\$ 772,454,096.15	
Combined Premium	\$ 64,371,174.68	<b>\$ 772,454,096.15</b>	

<u>Migration B</u>			
UHC, Cigna, Kaiser, and SCAN members move to Plan II	\$ 29,990,124.83	\$ 665,033,671.10	County 91.71%
Plan III members stay in Plan III	\$7,297,435.92	\$ 60,096,139	Members 8.29%
County stops paying part B premium for all members	\$ -	\$ 725,129,810.48	
Remaining Premium for the rest of population	\$ 23,139,923.46		
<b>Outcome</b>	<b>\$ 60,427,484.21</b>	\$ 725,129,810.48	
Combined Premium	\$ 60,427,484.21	<b>\$ 725,129,810.48</b>	

<u>Migration C</u>			
UHC, Cigna, Kaiser, and SCAN members move 50/50 to Corresponding Plans & II	\$ 27,089,106.73	\$ 633,106,564.74	County 91.71%
Plan III members stay in Plan III	\$ 7,297,435.92	\$ 57,211,029	Members 8.29%
County stops paying part B premium for all members	\$ -	\$ 690,317,593.31	
Remaining Premium for the rest of population	\$ 23,139,923.46		
<b>Outcome</b>	<b>\$ 57,526,466.11</b>	\$ 690,317,593.31	
Combined Premium	\$ 57,526,466.11	<b>\$ 690,317,593.31</b>	

<u>Migration D</u>			
UHC, Cigna, Kaiser, SCAN, and Plan III memb. move to Plan II	\$ 46,796,267.17	\$ 769,681,581.22	County 91.71%
County stops paying part B premium for all members		\$ 69,552,706	Members 8.29%
Remaining Premium for the rest of population	\$ 23,139,923.46	\$ 839,234,287.49	
<b>Outcome</b>	<b>\$ 69,936,190.62</b>	\$ 839,234,287.49	
Combined Premium	\$ 69,936,190.62	<b>\$ 839,234,287.49</b>	



**LACERA**  
**MEDICARE PART B SUBSIDY CALCULATION**  
**Exhibit C**

<b>2015 Subsidy Calculation</b>		
Part B Lives as of Oct 2015 (1)		31,408
Part B Subsidy	\$	4,005,820
Penalty (1)	\$	1,260
Subsidy & Penalties (1)	\$	4,007,079
Per Retiree Per Month	\$	127.58
Annual Part B Reimbursement & Penalty	\$	48,084,950

<b>All Plans (Medical/Local 1014)</b>		
Premium Amount (2)	\$	39,253,085
County Share (2)	\$	36,028,885
Medicare B subsidy and penalties (1)	\$	4,007,079
Total County Amount (2)	\$	<b>40,035,964</b>
Member Amount (2)	\$	<b>3,224,200</b>
Total (members + County)	\$	43,260,165

Total County Share 2015	92.55%
Total Member Share 2015	7.45%

<b>2015/2016 Projection</b>		
2015 Medicare B Premium	\$	104.90
2016 Medicare B Premium (3)	\$	109.97

<b>2015 Estimated Members Calculation</b>		
Medicare Part B Prem for ret w/o dependents	\$	3,294,699
Member to Subscriber Ratio		1.2158
<b>Estimated Members</b>		<b>38,187</b>

<b>Subsidy Projections 2015 /2016</b>				
		<u>2015</u>		<u>2016</u>
Estimated Members		38,187		38,187
Medicare B Premium	\$	104.90	\$	109.97
Monthly Premium	\$	4,005,820	\$	4,199,428
Monthly Penalty	\$	1,260	\$	1,260
<b>Annual 2015/16 Medicare Premium (includes penalty)</b>			<b>\$</b>	<b>49,246,600</b>
<b>Per Retiree per month</b>			<b>\$</b>	<b>130.66</b>

1- Per Medicare Part B Reimbursement and Penalty Report provided by LACERA for pay period as of 10/31/2015

2- Per Medical and Dental Vision Insurance Premiums Report of October 2015 provided by LACERA (pay period 10/31/2015)

2- County Share includes Adjustments

3- Weighted average based on an assumed 70% of participants with no increase to Part B premiums (whose premiums are deducted from Social Security and protected by the "hold harmless" provision) and 30% of participants with 2016 Medicare Part B premiums increasing to \$121.80